

**City of Laingsburg
Shiawassee County, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

City of Laingsburg
Shiawassee County, Michigan
June 30, 2008
CITY COUNCIL AND ADMINISTRATION

Micheal Culpepper	Mayor
Brian Fredline	Mayor Pro-tem
Robert Frank	Council Member
Timothy Leonard	Council Member
David Rhodabeck	Council Member
Thad Rose	Council Member
Jessica Bayer	Council Member
Paula Willoughby	City Treasurer
Lana Kaiser	City Clerk

City of Laingsburg

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June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Laingsburg, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Laingsburg, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Laingsburg, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laingsburg, Michigan's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 28, 2008

City of Laingsburg

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As management of the City of Laingsburg, we offer readers of the City of Laingsburg's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- State shared revenue, our second largest revenue source in the General Fund, was reduced by the State of Michigan by approximately \$2,672 this year. This reduction was the result of reduced sales tax revenues collected by the State and changes in the distribution formula used by the State. Over the past few years, the State has overestimated its projected revenues to be shared with local governments.
- Property tax revenues increased approximately \$24,251 from the prior year. The increase is the net result of increased residential building that has increased the City's taxable value from approximately \$26 million to \$27 million.
- The City completed Phase II of McClintock Park, financed by a \$322,750 DNR Grant with a fifty percent local match.
- Total fund balances related to the City's governmental funds decreased by \$257,257.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Laingsburg as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the City of Laingsburg in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City of Laingsburg acts solely as a trustee or agent for the benefit of those outside the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007, respectively.

	Governmental Activities		Business-type Activities		Totals	
	June 30		June 30		June 30	
	2008	2007	2008	2007	2008	2007
Assets						
Current & other assets \$	431,388	\$ 842,549	\$ 889,064	\$ 882,995	\$ 1,320,452	\$ 1,725,544
Capital assets	<u>1,952,022</u>	<u>1,575,611</u>	<u>1,225,338</u>	<u>1,244,032</u>	<u>3,177,360</u>	<u>2,819,643</u>
Total assets	2,383,410	2,418,160	2,114,402	2,127,027	4,497,812	4,545,187
Liabilities						
Current liabilities	53,063	216,429	21,929	69,740	74,992	286,169
Long-term liabilities	<u>431,099</u>	<u>452,624</u>	-	-	<u>431,099</u>	<u>452,624</u>
Total liabilities	484,162	669,053	21,929	69,740	506,091	738,793

City of Laingsburg

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The City as a Whole - continued

	Governmental Activities June 30		Business-type Activities June 30		Totals June 30	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net Assets						
Invested in capital assets net of related debt	\$ 1,455,178	\$ 911,642	\$ 1,225,338	\$ 1,244,032	\$ 2,680,516	\$ 2,155,674
Restricted	56,554	350,431	-	-	56,554	350,431
Unrestricted	<u>387,516</u>	<u>487,034</u>	<u>867,135</u>	<u>813,255</u>	<u>1,254,651</u>	<u>1,300,289</u>
	<u>\$ 1,899,248</u>	<u>\$ 1,749,107</u>	<u>\$ 2,092,473</u>	<u>\$ 2,057,287</u>	<u>\$ 3,991,721</u>	<u>\$ 3,806,394</u>

The City's total net assets were \$3,991,721 at June 30, 2008, representing an increase of \$174,989 from the prior year. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$1,254,651 at the end of the fiscal year, representing a decrease of \$45,638 from the prior year. The amount invested in capital assets, net of related debt was \$2,680,516.

The following table shows the changes in net assets during the current year and prior year, respectively.

	Governmental Activities June 30		Business-type Activities June 30		Totals June 30	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue						
Program Revenue						
Charges for services	\$ 82,246	\$ 73,407	\$ 190,575	\$ 190,154	\$ 272,821	\$ 263,561
Operating grants & contributions	174,034	162,804	-	-	174,034	162,804
Capital grants & contributions	95,870	290,810	-	-	95,870	290,810
General Revenue						
Property taxes	430,835	412,439	-	-	430,835	412,439
State shared revenue	139,290	141,962	-	-	139,290	141,962
Investment earnings	6,946	21,424	57,250	31,141	64,196	52,565
Other revenues	<u>11,765</u>	<u>10,245</u>	<u>-</u>	<u>-</u>	<u>11,765</u>	<u>10,245</u>
Total revenue	940,986	1,113,091	247,825	221,295	1,188,811	1,334,386
Program Expenses						
General government	174,021	218,656	-	-	174,021	218,656
Public safety	216,989	212,397	-	-	216,989	212,397
Public works	217,629	182,200	-	-	217,629	182,200
Health and welfare	54,498	39,439	-	-	54,498	39,439
Recreation and cultural	120,648	113,394	-	-	120,648	113,394
Interest on long-term debt	17,398	15,448	-	-	17,398	15,448
Sewer system	<u>-</u>	<u>-</u>	<u>212,639</u>	<u>200,437</u>	<u>212,639</u>	<u>200,437</u>
Total program expenses	<u>801,183</u>	<u>781,534</u>	<u>212,639</u>	<u>200,437</u>	<u>1,013,822</u>	<u>981,971</u>
Change in net assets	<u>\$ 139,803</u>	<u>\$ 331,557</u>	<u>\$ 35,186</u>	<u>\$ 20,858</u>	<u>\$ 174,989</u>	<u>\$ 352,415</u>

Governmental Activities

The City's governmental revenues totaled \$940,986, which represents a decrease of \$172,105 from the prior year, with the greatest revenue source being property taxes. Property taxes make up approximately 46 percent of total governmental revenue. Over the past few years, state shared revenue has declined while investment earnings reversed the downward trend and increased.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The City incurred governmental expenses of \$801,183, which represents an increase of \$19,649 from the prior year. The largest area of governmental expense is associated with the Public Works and Public Safety.

The net assets of the governmental activities increased by \$139,803.

Business-type Activities

Net assets of the business-type activities increased by \$35,186 during the year ended June 30, 2008. The majority of the revenue of the business-type activities is generated through user charges. Depreciation of the sewer system's capital assets represents approximately 37% of the business-type activities' expenses. Of the total \$2.1 million of net assets of the business-type activities as of June 30, 2008, \$1.2 million is invested in capital assets net of related debt.

The City's Funds - Fund Level Financial Statements

The analysis of the City's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Laingsburg as a whole. The City of Laingsburg creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The City's major funds for the fiscal year ended June 30, 2008 include the General Fund, the 2006 Projects Fund, and the Sewer System Fund.

The General Fund pays for most of the City's governmental services. The most significant services provided during the fiscal year were general government and public safety. General government includes City hall and grounds and other City services and public safety includes the police department as well as planning and zoning. The general government and public safety incurred expenditures of \$168,888 and \$207,939 respectively, for the fiscal year.

The 2006 Projects Fund is used to pay for capital projects of the City and the Downtown Development Authority and incurred expenditures of \$454,511.

The Sewer Fund pays for the City's Sewer service to the public and incurred expenses of \$212,639 for the fiscal year. Expenses are funded through sewer user charges.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Council made necessary budget adjustments to fund unanticipated expenditures during the year. The most significant budget amendments were made to cover the costs of city services, contractual services, and park maintenance. While most departments came in under budget at year-end, there was an unfavorable variance of \$7,538 from budget in transfers to other funds and an unfavorable variance of \$5,653 from the budget in capital outlay.

Capital Asset and Debt Administration

At the end of the fiscal year, the City had approximately \$3,177,360 invested in a broad range of capital assets, including buildings, land, equipment, and infrastructure. In addition, the City has made certain investments in road and drain infrastructure within the City limits of Laingsburg.

During the current year the City paid \$23,084 in debt principal. The City has \$464,748 in debt outstanding as of June 30, 2008, including \$18,324 for accumulated compensated absences.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Current Economic Factors

Revenue Sharing has become more stable and less of a concern during the budget process. The City has been able to offset the rising health insurance costs by increasing the deductible that the City pays for each employee. Road improvements have become a significant budget concern. The cost of road projects continues to rise while the amount received from the Weight and Gas tax has remained constant. Interest rates are currently low and are expected to remain low until the mortgage crisis is resolved. Due to the economic downturn the City is experiencing a decrease in building permits and an increase in homes that are in foreclosure.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City Clerk or Treasurer at the City Hall.

BASIC FINANCIAL STATEMENTS

City of Laingsburg

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		(DDA)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 328,950	\$ 322,030	\$ 650,980	\$ 65,235
Cash - restricted	10,864	-	10,864	-
Investments	9,578	-	9,578	-
Receivables	4,491	87,725	92,216	-
Due from other governmental units	76,396	-	76,396	-
Internal balances	1,109	(1,109)	-0-	-
Total current assets	431,388	408,646	840,034	65,235
Noncurrent assets				
Investments	-	480,418	480,418	-
Capital assets not being depreciated	55,451	38,800	94,251	-
Capital assets, net of accumulated depreciation	1,896,571	1,186,538	3,083,109	-
Total noncurrent assets	1,952,022	1,705,756	3,657,778	-0-
TOTAL ASSETS	2,383,410	2,114,402	4,497,812	65,235
LIABILITIES				
Current liabilities				
Accounts payable	13,989	21,821	35,810	-
Other accrued liabilities	589	108	697	-
Accrued interest payable	4,836	-	4,836	-
Current portion of compensated absences	10,195	-	10,195	-
Current portion of long-term debt	23,454	-	23,454	-
Total current liabilities	53,063	21,929	74,992	-0-
Noncurrent liabilities				
Noncurrent portion of compensated absences	8,129	-	8,129	-
Noncurrent portion of long-term debt	422,970	-	422,970	-
Total noncurrent liabilities	431,099	-0-	431,099	-0-
TOTAL LIABILITIES	484,162	21,929	506,091	-0-
NET ASSETS				
Invested in capital assets, net of related debt	1,455,178	1,225,338	2,680,516	-
Restricted for streets	56,554	-	56,554	-
Unrestricted	387,516	867,135	1,254,651	65,235
TOTAL NET ASSETS	\$ 1,899,248	\$ 2,092,473	\$ 3,991,721	\$ 65,235

See accompanying notes to financial statements.

City of Laingsburg

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

					Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 174,021	\$ 56,323	\$ 1,454	\$ 80,000	\$ (36,244)	\$ -	\$ (36,244)	\$ -
Public safety	216,989	3,374	1,706	-	(211,909)	-	(211,909)	-
Public works	217,629	13,514	114,945	-	(89,170)	-	(89,170)	-
Health and welfare	54,498	300	-	-	(54,198)	-	(54,198)	-
Recreation and cultural	120,648	8,735	55,929	15,870	(40,114)	-	(40,114)	-
Interest on long-term debt	17,398	-	-	-	(17,398)	-	(17,398)	-
Total governmental activities	801,183	82,246	174,034	95,870	(449,033)	-0-	(449,033)	-0-
Business-type activities								
Sewer system	212,639	190,575	-	-	-	(22,064)	(22,064)	-
Total primary government	<u>\$ 1,013,822</u>	<u>\$ 272,821</u>	<u>\$ 174,034</u>	<u>\$ 95,870</u>	(449,033)	(22,064)	(471,097)	-0-
Component unit								
Downtown Development Authority	<u>\$ 31,642</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-	-	-0-	(31,642)
		General revenues						
		Property taxes			430,835	-	430,835	55,063
		State shared revenues			139,290	-	139,290	-
		Investment earnings			6,946	57,250	64,196	-
		Miscellaneous			11,765	-	11,765	-
		Total general revenues			588,836	57,250	646,086	55,063
		Change in net assets			139,803	35,186	174,989	23,421
		Restated net assets, beginning of the year			1,759,445	2,057,287	3,816,732	41,814
		Net assets, end of the year			\$ 1,899,248	\$ 2,092,473	\$ 3,991,721	\$ 65,235

See accompanying notes to financial statements.

City of Laingsburg

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Capital Projects 2006 Projects	Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 195,560	\$ 47,761	\$ 85,629
Cash and cash equivalents - restricted	7,013	-	3,851
Investments	9,578	-	-
Accounts receivable	2,661	1,830	-
Due from other governmental units			
State	37,141	-	18,258
Local	637	-	20,360
Due from other funds	54,881	-	-
TOTAL ASSETS	\$ 307,471	\$ 49,591	\$ 128,098
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Payables			
Accounts	\$ 10,159	\$ 493	\$ 3,337
Wages	509	-	80
Due to other funds	-	49,098	4,674
TOTAL LIABILITIES	10,668	49,591	8,091
FUND BALANCES			
Reserved for debt service	-	-	1,034
Unreserved			
Designated for community projects	33,189	-	-
Undesignated, reported in			
General Fund	263,614	-	-
Special Revenue Funds	-	-	118,973
TOTAL FUND BALANCES	296,803	-0-	120,007
TOTAL LIABILITIES AND FUND BALANCES	\$ 307,471	\$ 49,591	\$ 128,098

See accompanying notes to financial statements.

Total
Governmental
Funds

\$	328,950
	10,864
	9,578
	4,491
	55,399
	20,997
	54,881
	<hr/>
\$	485,160
	<hr/>

\$	13,989
	589
	53,772
	<hr/>

68,350

1,034

33,189

263,614

118,973

416,810

\$	485,160
	<hr/>

City of Laingsburg

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 416,810

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 3,050,533	
Accumulated depreciation is	<u>(1,098,511)</u>	

Capital assets, net		1,952,022
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities at year-end consist of:

Long-term debt payable	446,424	
Accrued interest payable	4,836	
Compensated absences	<u>18,324</u>	

	<u>(469,584)</u>
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Net assets of governmental activities	<u><u>\$ 1,899,248</u></u>
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See accompanying notes to financial statements.

City of Laingsburg

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	General	Capital Projects 2006 Projects	Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 442,356	\$ -	\$ -
Licenses and permits	9,133	-	-
Intergovernmental	145,936	80,000	140,210
Charges for services	2,362	-	7,267
Fines and forfeits	4,689	-	37,024
Interest and rents	35,293	399	3,546
Other	7,350	14,800	10,621
TOTAL REVENUES	647,119	95,199	198,668
EXPENDITURES			
Current			
General government	168,888	-	-
Public safety	207,939	-	-
Public works	60,041	-	96,806
Health and welfare	25,926	-	-
Recreation and cultural	47,665	-	72,983
Other	11,144	-	-
Capital outlay	9,653	454,511	1,700
Debt service	9,279	-	31,708
TOTAL EXPENDITURES	540,535	454,511	203,197
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	106,584	(359,312)	(4,529)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	164,851	49,868
Transfers out	(94,438)	-	(120,281)
TOTAL OTHER FINANCING SOURCES (USES)	(94,438)	164,851	(70,413)
NET CHANGE IN FUND BALANCES	12,146	(194,461)	(74,942)
Fund balances, beginning of year	259,250	194,461	210,018
Prior period adjustments	25,407	-	(15,069)
Fund balances, end of year	\$ 296,803	\$ -0-	\$ 120,007

See accompanying notes to financial statements.

Total
Governmental
Funds

\$ 442,356
9,133
366,146
9,629
41,713
39,238
32,771

940,986

168,888
207,939
156,847
25,926
120,648
11,144
465,864
40,987

1,198,243

(257,257)

214,719
(214,719)

-0-

(257,257)

663,729

10,338

\$ 416,810

City of Laingsburg

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ (257,257)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 482,731	
Depreciation expense	<u>(106,320)</u>	
Excess of capital outlay over depreciation expense		376,411

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Repayment of long-term debt	23,084
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	505	
(Increase) in accrued compensated absences	<u>(2,940)</u>	
		<u>(2,435)</u>

Change in net assets of governmental activities **\$ 139,803**

See accompanying notes to financial statements.

City of Laingsburg

Proprietary Fund

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Sewer System</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 322,030
Accounts receivable	<u>87,725</u>
Total current assets	409,755
Noncurrent assets	
Investments	480,418
Capital assets not being depreciated	38,800
Capital assets net of accumulated depreciation	<u>1,186,538</u>
Total noncurrent assets	<u>1,705,756</u>
TOTAL ASSETS	2,115,511
LIABILITIES	
Current liabilities	
Accounts payable	21,821
Accrued wages	108
Due to other funds	<u>1,109</u>
TOTAL LIABILITIES	<u>23,038</u>
NET ASSETS	
Invested in capital assets	1,225,338
Unrestricted	<u>867,135</u>
TOTAL NET ASSETS	<u><u>\$ 2,092,473</u></u>

See accompanying notes to financial statements.

City of Laingsburg

Proprietary Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Year Ended June 30, 2008

	<u>Sewer System</u>
OPERATING REVENUES	
Charges for services	\$ 190,575
OPERATING EXPENSES	
Salaries and wages	49,808
Fringe benefits	14,218
Contractual services	35,591
Utilities	3,161
Repairs and maintenance	9,753
Depreciation	78,821
Other	<u>21,287</u>
TOTAL OPERATING EXPENSES	<u>212,639</u>
OPERATING LOSS	(22,064)
NONOPERATING REVENUES	
Interest revenue	<u>57,250</u>
CHANGE IN NET ASSETS	35,186
Net assets, beginning of year	<u>2,057,287</u>
Net assets, end of year	<u><u>\$ 2,092,473</u></u>

See accompanying notes to financial statements.

City of Laingsburg

Proprietary Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 187,391
Cash paid to employees and vendors	(167,125)
Cash paid for employee benefits	(14,218)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,048
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(60,127)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(480,418)
Maturities of investments	695,985
Interest revenue	57,250
NET CASH PROVIDED BY INVESTING ACTIVITIES	272,817
NET INCREASE IN CASH AND CASH EQUIVALENTS	218,738
Cash and cash equivalents, beginning of year	103,292
Cash and cash equivalents, end of year	\$ 322,030
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (22,064)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	78,821
(Increase) in receivables	(3,184)
(Decrease) in accounts payable	(46,169)
Increase in due to other funds	286
(Decrease) in accrued liabilities	(1,642)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,048

See accompanying notes to financial statements.

City of Laingsburg

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 13,869
Investments	12,418
Due from individuals and agencies	<u>407</u>
TOTAL ASSETS	<u>\$ 26,694</u>
LIABILITIES	
Due to individuals and agencies	\$ 13,415
Due to other governmental units	
County	2,173
State Education Tax	1,798
Schools	<u>9,308</u>
TOTAL LIABILITIES	<u>\$ 26,694</u>

See accompanying notes to financial statements.

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Laingsburg is located in Shiawassee County, Michigan and has a population of approximately 1,223. The City of Laingsburg operates with a Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected at large for overlapping four (4) year terms and a Mayor elected at large for a two (2) year term. The Council appoints the Treasurer, Clerk, Assessor, Chief of Police, and DPW Supervisor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to City governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Laingsburg (primary government) and its component unit (Downtown Development Authority).

2. Discretely Presented Component Unit

The component unit is reported in a separate column to emphasize that, while legally separate, the City of Laingsburg remains financially accountable for this entity.

The governing body of the Downtown Development Authority (DDA) is appointed by the City Council, the Authority's budget is subject to the approval of the City Council and the City temporarily relinquishes part of its tax base to the Authority (tax increment revenues). The DDA is included in the City's financial statements and is not audited separately.

3. Jointly Governed Organizations

The City participates in the following activity which is considered to be a jointly governed organization in relation to the City due to there being no ongoing financial interest or responsibility:

Laingsburg, Sciota, and Woodhull Emergency Services Authority - The City of Laingsburg, in conjunction with the Townships of Sciota and Woodhull, have entered into an agreement that created the Laingsburg, Sciota, and Woodhull Emergency Services Authority. The Emergency Services Authority is composed of two (2) members from each of the member municipalities. The City is responsible to pay a pro-rata portion of operating and construction costs based on the current taxable values of the member municipalities. The City levied .9566 mills per \$1,000 of assessed valuation for fire protection services and 1.0986 mills per \$1,000 of assessed valuation for ambulance services and forwarded the collections to the Emergency Services Authority. Other than the levy, the City did not contribute funds to the Emergency Services Authority for the year ended June 30, 2008.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated non-major funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The 2006 Projects Fund is used to account for the financial resources and costs related to various capital projects, the costs are financed by long-term general obligation debt.
- c. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

The City also reports agency funds to account for assets held by the City as an agent for other governments, private organizations, or individuals. Agency funds are, by nature, custodial, therefore, operation results are not measured.

5. Measurement Focus

The government-wide and proprietary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

General and Special Revenue Funds' budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the fund financial statements. This basis is also consistent with accounting principles generally accepted in the United States of America. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. At the regular council meeting in May, the City Treasurer submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments at the regular council meeting in May.
- c. The budget is legally adopted with passage by Council vote no later than the third Monday in May.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Cash, Cash Equivalents, and Investments

The City pools cash resources of various funds in order to facilitate the management of cash; cash consists of checking and money market accounts. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the City's investments. Cash equivalents consist of temporary investments in mutual funds and certificates of deposit with original maturities of 90 days or less.

Investments include U.S. government securities and certificates of deposit with original maturities of greater than 90 days from the date of purchase. All certificates of deposit are stated at market value.

9. Property Tax

The City of Laingsburg bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the City of Laingsburg on July 1 and December 1 and are payable without penalty through August 31 and February 14, respectively. The July 1 levy is composed of the City's millage, the County's millage, special assessments and the State Education Tax. The December 1 levy is composed of the fire authority, and schools taxes and special assessments. All real property taxes not paid to the City by March 1 are turned over to the Shiawassee County Treasurer for collection. The Shiawassee County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2008, the City levied 15.2377 mills per \$1,000 of assessed valuation for general governmental services. The total Taxable Value for the 2007 levy for property within the City was \$27,228,936.

10. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds, if any, are netted as part of the reconciliation to the government-wide financial statements.

11. Compensated Absences

City employees are granted thirty-two hours of personal leave and sixty-four hours of sick leave annually, with a maximum to accumulate 160 hours of sick leave. In the event of termination, an employee is paid for accumulated sick/personal time. Employees are not paid for accumulated vacation. All employees with accumulated unused sick/personal time pay at June 30, 2008 were vested and the total due to them, along with the related payroll taxes, is recorded entirely in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Capital Assets

Capital assets include land, buildings and improvements, vehicles, equipment and furniture, infrastructure, and sewer system, and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment and furniture	5 - 30 years
Vehicles	2 - 8 years
Sewer system and improvements	15 - 40 years
Infrastructure	20 years

13. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

14. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City utilizes a pooled cash account for three funds. The City's pooled cash account consists of a checking account, utilized by the Special Revenue Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption on the basic financial statements.

The other funds of the City utilize separate savings, investment, and interest bearing checking accounts.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 446,361	\$ 407,521
Money market	87,258	87,258
Certificates of deposit	<u>335,706</u>	<u>334,641</u>
	869,325	829,420
COMPONENT UNIT		
Checking	65,235	65,235
FIDUCIARY FUNDS		
Checking	4,291	19,701
Money market	<u>5,839</u>	<u>26,728</u>
	<u>10,130</u>	<u>46,429</u>
TOTAL REPORTING ENTITY	<u>\$ 944,690</u>	<u>\$ 941,084</u>

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the City's deposits was \$944,690 and the bank balance was \$941,084, of which \$217,024 was covered by federal depository insurance. The balance of \$724,060 was uninsured and uncollateralized.

Investments

As of June 30, 2008, the carrying amounts and market values for the investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT			
Insured or registered for which the securities are held by the City's agent in the City's name -			
Federal Home Loan Mortgage Bonds	\$ 66,295	\$ 66,295	25 years
Van Kampen Insured Income Trust	88,586	88,586	1 day
GNMA II Guaranteed Pass Thru	29,792	29,792	25 years
Federal National Mortgage Association Remic.	<u>97,717</u>	<u>97,717</u>	26 years
Total primary government	282,390	282,390	
FIDUCIARY FUNDS			
Insured or registered for which the securities are held by the City's agent in the City's name -			
Federal Home Loan Mortgage Bonds	<u>16,157</u>	<u>16,157</u>	25 years
TOTAL REPORTING ENTITY	<u>\$ 298,547</u>	<u>\$ 298,547</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, all of the City's investments were rated Aaa by Standard and Poor's.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Council and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Council approved policy.

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 650,980	\$ 65,235	\$ 13,869	\$ 730,084
Cash and cash equivalents - restricted	10,864	-	-	10,864
Investments	<u>489,996</u>	<u>-</u>	<u>12,418</u>	<u>502,414</u>
	<u>\$ 1,151,840</u>	<u>\$ 65,235</u>	<u>\$ 26,287</u>	<u>\$ 1,243,362</u>

The cash and cash equivalents captions on the basic financial statements include \$125 in imprest cash.

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of June 30, 2008:

	<u>Employee Benefits</u>	<u>Community Projects</u>	<u>Total</u>
General Fund	\$ 7,013	\$ -	\$ 7,013
Park and Recreation Fund	<u>-</u>	<u>3,851</u>	<u>3,851</u>
	<u>\$ 7,013</u>	<u>\$ 3,851</u>	<u>\$ 10,864</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to General Fund from:	
2006 Capital Project Fund	\$ 49,098
Sewer System Fund	1,109
Nonmajor governmental funds	<u>4,674</u>
	<u>\$ 54,881</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ 30,887
Nonmajor governmental funds	<u>18,981</u>
	<u>\$ 49,868</u>
Transfers to 2006 Capital Projects Fund from:	
General Fund	\$ 63,551
Nonmajor governmental funds	<u>101,300</u>
	<u>\$ 164,851</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2008</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 55,451	\$ -	\$ -	\$ 55,451
Construction in progress	<u>181,013</u>	<u>455,373</u>	<u>(636,386)</u>	<u>-0-</u>
Subtotal of capital assets not being depreciated	236,464	455,373	(636,386)	55,451
Capital assets being depreciated				
Buildings and improvements	825,634	19,625	-	845,259
Vehicles	184,533	-	-	184,533
Equipment and furniture	207,807	7,733	-	215,540
Infrastructure	<u>1,113,364</u>	<u>636,386</u>	<u>-</u>	<u>1,749,750</u>
Subtotal of capital assets being depreciated	2,331,338	663,744	-0-	2,995,082
Less accumulated depreciation for				
Buildings and improvements	(90,736)	(31,884)	-	(122,620)
Vehicles	(164,931)	(5,227)	-	(170,158)
Equipment and furniture	(120,784)	(14,656)	-	(135,440)
Infrastructure	<u>(615,740)</u>	<u>(54,553)</u>	<u>-</u>	<u>(670,293)</u>
Total accumulated depreciation	<u>(992,191)</u>	<u>(106,320)</u>	<u>-0-</u>	<u>(1,098,511)</u>
Net capital assets being depreciated	<u>1,339,147</u>	<u>557,424</u>	<u>-0-</u>	<u>1,896,571</u>
Capital assets, net	<u>\$ 1,575,611</u>	<u>\$ 1,012,797</u>	<u>\$(636,386)</u>	<u>\$ 1,952,022</u>

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - continued

Depreciation expense was charged to the following governmental activities:

General government	\$ 7,916
Public safety	9,050
Public works	60,782
Recreation and cultural	<u>28,572</u>
Total depreciation expense	<u>\$ 106,320</u>

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 38,800	\$ -	\$ 38,800
Capital assets being depreciated				
Sewer system and improvements	3,236,675	-	-	3,236,675
Machinery and equipment	55,031	21,327	-	76,358
Office equipment	<u>3,302</u>	<u>-</u>	<u>-</u>	<u>3,302</u>
Subtotal of capital assets being depreciated	3,295,008	21,327	-0-	3,316,335
Less accumulated depreciation for				
Sewer system and improvements	(1,995,137)	(77,765)	-	(2,072,902)
Machinery and equipment	(52,537)	(1,056)	-	(53,593)
Office equipment	<u>(3,302)</u>	<u>-</u>	<u>-</u>	<u>(3,302)</u>
Total accumulated depreciation	<u>(2,050,976)</u>	<u>(78,821)</u>	<u>-0-</u>	<u>(2,129,797)</u>
Net capital assets being depreciated	<u>1,244,032</u>	<u>(57,494)</u>	<u>-0-</u>	<u>1,186,538</u>
Capital assets, net	<u>\$ 1,244,032</u>	<u>\$ (18,694)</u>	<u>\$ -0-</u>	<u>\$ 1,225,338</u>

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Amount Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental Activities					
Capital Leases - Police Cars	\$ 15,937	\$ -	\$ 4,933	\$ 11,004	\$ 5,303
Project reimbursement	53,571	-	3,151	50,420	3,151
2006 General Obligation Bonds	400,000	-	15,000	385,000	15,000
Compensated absences	<u>15,384</u>	<u>10,358</u>	<u>7,418</u>	<u>18,324</u>	<u>10,195</u>
	<u>\$ 484,892</u>	<u>\$ 10,358</u>	<u>\$ 30,502</u>	<u>\$ 464,748</u>	<u>\$ 33,649</u>

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligation Bonds

\$400,000 General Obligation Bonds dated August 1, 2006, due in annual installments ranging from \$15,000 to \$40,000 through October 1, 2020, with interest ranging from 4.00 to 4.45 percent, payable semi-annually.

\$ 385,000

The annual requirements to pay the debt principal and interest outstanding for the General Obligation Bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$15,000	\$15,883
2010	20,000	15,183
2011	20,000	14,382
2012	25,000	13,482
2013	25,000	12,483
2014-2018	160,000	44,449
2019-2020	<u>120,000</u>	<u>7,965</u>
	<u>\$ 385,000</u>	<u>\$ 123,827</u>

Capital Leases

The City has entered into lease purchase agreements to finance the acquisition of police cars. The current lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$26,136.

Commitments under this lease agreement provide for minimum annual payments as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 5,303	\$ 825
2010	<u>5,701</u>	<u>427</u>
	<u>\$ 11,004</u>	<u>\$ 1,252</u>

Project Reimbursement

The City has entered into an agreement to reimburse Verizon North for certain improvements made to the Downtown area. The agreement is dated July 23, 2005 and is due in annual installments of \$3,151 with no interest through July 23, 2023. The cost of improvements acquired under this agreement amounted to \$63,024.

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: LONG-TERM DEBT - CONTINUED

Project Reimbursement - continued

Commitments under this agreement provide for minimum annual payments as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>
2009	\$ 3,151
2010	3,151
2011	3,151
2012	3,151
2013	3,151
2014-2018	15,755
2019-2023	15,755
2024	<u>3,155</u>
	<u>\$ 50,420</u>

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick/personal time. The dollar amount of these vested rights including related payroll taxes, which have been accrued on the financial statements in the government-wide financial statements, amounted to approximately \$18,324 at June 30, 2008.

NOTE H: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the City of Laingsburg. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for eligible employees was established by the City Council. The plan requires a three (3) percent contribution from the employees.

Annual Pension Cost

For year ended June 30, 2008, the City of Laingsburg's annual pension cost of \$14,369 for the plan was equal to the City of Laingsburg's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: RETIREMENT PLAN - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$ 131,514	\$ 162,472	\$ 194,205
Actuarial accrued liability (AAL) (entry age)	132,771	158,327	190,620
Unfunded (overfunded) AAL	1,230	(4,145)	(3,585)
Funded ratio	99 %	103 %	102 %
Covered payroll	226,735	201,594	208,158
UAAL as a percentage of covered payroll	1 %	-0 %	-0 %

	Year Ended June 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 13,239	\$ 13,856	\$ 14,369
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE I: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Liability and Property Pool with other municipalities for property, casualty, law enforcement, automobiles, crime, employee benefit, and public official losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE J: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the City has set aside for specific purposes.

The following is a fund balance reserve as of June 30, 2008:

Nonmajor governmental funds	
Reserved for debt service	\$ <u>1,034</u>

The following is a fund balance designation as of June 30, 2008:

General Fund	
Designated for community projects	\$ <u>33,189</u>

City of Laingsburg

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE K: BUILDING AND ZONING FINANCIAL INFORMATION

The City elected to report the financial activities of the building and zoning department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2008:

REVENUES	
Building permits	\$ 3,487
EXPENDITURES	
Contractual services	17,252
Supplies and other	<u>46</u>
TOTAL EXPENDITURES	<u>17,298</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>\$ (13,811)</u>

NOTE L: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2008:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for streets	<u>\$ 56,554</u>

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the City's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2008, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Capital outlay	\$ 4,000	\$ 9,653	\$ 5,653
Transfers out	86,900	94,438	7,538

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE N: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance. The effect on operations and other affected balances for the current and prior year are as follows:

	<u>2008</u>	June 30, <u>2007</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Governmental Funds			
General Fund			
Due from other governmental units	\$ -	\$ 25,407	To correct understated due from other governmental units
Revenues over (under) expenditures	-	25,407	
Fund balance - beginning	25,407	-	
Park and Recreation Fund			
Due from other governmental units	-	(15,069)	To correct overstated due from other governmental units
Revenues over (under) expenditures	-	(15,069)	
Fund balance - beginning	(15,069)	-	

NOTE O: RESTATEMENT OF NET ASSETS

Beginning net assets have been restated to reflect various corrections of accounting errors. Due from other governmental units had been understated by \$10,338. The adjustment of \$10,338 results in restated net assets of governmental activities as of June 30, 2007, to \$1,759,445.

NOTE P: CONTINGENT LIABILITY

There is a legal claim pending against the City. Due to the inconclusive nature of the claim, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the City's potential liability, if any.

REQUIRED SUPPLEMENTARY INFORMATION

City of Laingsburg

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Amended</u>	<u>Actual</u>	
REVENUES				
Taxes				
Property taxes	\$ 444,867	\$ 446,367	\$ 442,356	\$ (4,011)
Licenses and permits				
Cable television license	4,788	5,388	5,385	(3)
City licenses and permits	<u>5,250</u>	<u>5,250</u>	<u>3,748</u>	<u>(1,502)</u>
Total licenses and permits	10,038	10,638	9,133	(1,505)
Intergovernmental				
State				
State shared revenue	140,000	140,000	139,290	(710)
State liquor license	1,350	1,350	1,354	4
Michigan justice training	950	950	700	(250)
Metro act	<u>4,000</u>	<u>4,000</u>	<u>4,592</u>	<u>592</u>
Total intergovernmental	146,300	146,300	145,936	(364)
Charges for services				
Other fees	2,200	2,200	2,362	162
Fines and forfeits				
Parking	10,250	5,250	4,689	(561)
Interest and rents				
Interest	1,515	2,115	3,001	886
Rents	<u>37,400</u>	<u>37,400</u>	<u>32,292</u>	<u>(5,108)</u>
Total interest and rents	38,915	39,515	35,293	(4,222)
Other				
Refunds	450	12,550	5,276	(7,274)
Other	<u>2,735</u>	<u>4,165</u>	<u>2,074</u>	<u>(2,091)</u>
Total other	<u>3,185</u>	<u>16,715</u>	<u>7,350</u>	<u>(9,365)</u>
TOTAL REVENUES	655,755	666,985	647,119	(19,866)

City of Laingsburg

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Amended</u>		
EXPENDITURES				
Current				
General government				
Council, boards, and commissions	\$ 7,755	\$ 5,955	\$ 4,247	\$ 1,708
Chief executive	3,020	2,320	2,072	248
Treasurer	36,941	36,766	34,027	2,739
Clerk	29,140	31,315	28,769	2,546
Contractual services	23,500	32,500	30,962	1,538
Assessor	12,000	12,000	11,919	81
Elections	5,700	3,100	2,327	773
City hall and grounds	54,980	49,380	45,132	4,248
Board of review	600	500	408	92
City services	10,475	9,625	9,025	600
Total general government	184,111	183,461	168,888	14,573
Public safety				
Police department	181,110	171,160	167,144	4,016
Fire department	26,047	24,047	23,497	550
Zoning & Planning commission	29,890	21,150	17,298	3,852
Total public safety	237,047	216,357	207,939	8,418
Public works				
General services	80,510	67,810	59,541	8,269
Drains	6,950	1,700	500	1,200
Total public works	87,460	69,510	60,041	9,469
Health and welfare				
Emergency services	600	600	-	600
Ambulance	29,914	26,914	25,926	988
Total health and welfare	30,514	27,514	25,926	1,588
Recreation and cultural				
Parks maintenance	17,163	21,763	19,735	2,028
Library	10,500	29,000	27,930	1,070
Total recreation and cultural	27,663	50,763	47,665	3,098

City of Laingsburg

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Amended</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Other				
Insurance	\$ 22,375	\$ 11,275	\$ 11,144	\$ 131
Contingencies	4,005	5	-	5
Total other	26,380	11,280	11,144	136
Capital outlay	14,880	4,000	9,653	(5,653)
Debt service	9,700	17,200	9,279	7,921
TOTAL EXPENDITURES	617,755	580,085	540,535	39,550
EXCESS OF REVENUES OVER EXPENDITURES	38,000	86,900	106,584	19,684
OTHER FINANCING USES				
Transfers out	(38,000)	(86,900)	(94,438)	(7,538)
NET CHANGE IN FUND BALANCE	-0-	-0-	12,146	12,146
Fund balance, beginning of year	259,250	259,250	259,250	-0-
Prior period adjustment	-	-	25,407	25,407
Fund balance, end of year	<u>\$ 259,250</u>	<u>\$ 259,250</u>	<u>\$ 296,803</u>	<u>\$ 37,553</u>

OTHER SUPPLEMENTARY INFORMATION

City of Laingsburg

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2008

	Special Revenue		
	Major Street	Local Street	Library
ASSETS			
Cash and cash equivalents	\$ 41,526	\$ 3,077	\$ 39,992
Cash and cash equivalents - restricted	-	-	-
Due from other governmental units			
State	11,590	4,327	2,341
Local	-	-	20,360
TOTAL ASSETS	<u>\$ 53,116</u>	<u>\$ 7,404</u>	<u>\$ 62,693</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,300	\$ -	\$ 37
Accrued wages	49	31	-
Due to other funds	344	242	237
TOTAL LIABILITIES	3,693	273	274
FUND BALANCES			
Reserved for debt service	-	-	-
Unreserved			
Undesignated, reported in			
Special Revenue Funds	49,423	7,131	62,419
TOTAL FUND BALANCES	<u>49,423</u>	<u>7,131</u>	<u>62,419</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,116</u>	<u>\$ 7,404</u>	<u>\$ 62,693</u>

<u>Debt Service</u> <u>2006</u> <u>Debt</u>	<u>Capital Projects</u> <u>Park and</u> <u>Recreation Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
\$ 1,034	\$ -	\$ 85,629
-	3,851	3,851
-	-	18,258
-	-	20,360
<u>\$ 1,034</u>	<u>\$ 3,851</u>	<u>\$ 128,098</u>
\$ -	-	\$ 3,337
-	-	80
-	3,851	4,674
-0-	3,851	8,091
1,034	-	1,034
-	-	118,973
1,034	-0-	120,007
<u>\$ 1,034</u>	<u>\$ 3,851</u>	<u>\$ 128,098</u>

City of Laingsburg

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		
	Major Street	Local Street	Library
REVENUES			
Intergovernmental			
State	\$ 83,947	\$ 26,405	\$ 4,856
Local	-	-	12,500
Charges for services	-	-	7,267
Fines and forfeits	-	-	37,024
Interest and rents	2,226	352	968
Other	3,319	1,422	2,512
TOTAL REVENUES	89,492	28,179	65,127
EXPENDITURES			
Current			
Public works	71,326	25,480	-
Recreation and cultural	-	-	72,435
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	71,326	25,480	72,435
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	18,166	2,699	(7,308)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	20,000
Transfers out	(92,587)	(27,694)	-
TOTAL OTHER FINANCING SOURCES (USES)	(92,587)	(27,694)	20,000
NET CHANGE IN FUND BALANCES	(74,421)	(24,995)	12,692
Fund balances, beginning of year	123,844	32,126	49,727
Prior period adjustment	-	-	-
Fund balances, end of year	\$ 49,423	\$ 7,131	\$ 62,419

<u>Debt Service</u> <u>2006</u> <u>Debt</u>	<u>Capital Projects</u> <u>Park and</u> <u>Recreation</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
\$ -	\$ -	\$ 115,208
12,502	-	25,002
-	-	7,267
-	-	37,024
-	-	3,546
-	3,368	10,621
12,502	3,368	198,668
-	-	96,806
-	548	72,983
-	1,700	1,700
31,708	-	31,708
31,708	2,248	203,197
(19,206)	1,120	(4,529)
18,981	10,887	49,868
-	-	(120,281)
18,981	10,887	(70,413)
(225)	12,007	(74,942)
1,259	3,062	210,018
-	(15,069)	(15,069)
<u>\$ 1,034</u>	<u>\$ -0-</u>	<u>\$ 120,007</u>

City of Laingsburg

Agency Funds

COMBINING STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008

	Trust and Agency	Current Tax Collection	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 13,869	\$ 13,869
Investments	12,418	-	12,418
Due from individuals and agencies	407	-	407
TOTAL ASSETS	<u>\$ 12,825</u>	<u>\$ 13,869</u>	<u>\$ 26,694</u>
LIABILITIES			
Due to individuals and agencies	\$ 12,825	\$ 590	\$ 13,415
Due to other governmental units			
County	-	2,173	2,173
State Education Tax	-	1,798	1,798
Schools	-	9,308	9,308
TOTAL LIABILITIES	<u>\$ 12,825</u>	<u>\$ 13,869</u>	<u>\$ 26,694</u>

City of Laingsburg
Component Unit Fund
BALANCE SHEET
June 30, 2008

	Downtown Development Authority
ASSETS	
Cash and cash equivalents	\$ 65,235
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	
Unreserved - undesignated	65,235
TOTAL LIABILITIES AND FUND BALANCE	\$ 65,235

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for the component unit is not required as the component unit fund balance was equal to the component unit net assets as of June 30, 2008

City of Laingsburg

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

Year Ended June 30, 2008

	Downtown Development Authority
REVENUES	
Taxes	\$ 55,063
EXPENDITURES	
Community and economic development	<u>31,642</u>
NET CHANGE IN FUND BALANCE	23,421
Fund balance, beginning of year	<u>41,814</u>
Fund balance, end of year	<u><u>\$ 65,235</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and change in fund balance of the component unit governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended June 30, 2008.

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

To the Honorable Mayor and
Members of the City Council
City of Laingsburg, Michigan

We have audited the financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Laingsburg as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Laingsburg's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the City prepares monthly financial reporting at the fund level. The annual audited financial statements for the year ended June 30, 2008 for the City required few audit adjustments.

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The staff at City of Laingsburg understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. This issue was noted and reported in our audit comments last year.

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiency described below to be a material weakness in internal control over financial reporting.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed to correct misstatements noted during the audit process. These misstatements were not detected by the City's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Material journal entries to record prior period adjustments and the adjustment of depreciation expense, capital outlay, and due from other governments were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. A similar issue was noted and reported in our audit comments last year.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the City's internal controls.

We recommend that the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance:

UNFAVORABLE BUDGETS VARIANCES

As noted in the supplementary information in the financial statements, some of the activities of the City exceeded the amounts appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the City monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management and the City Council of the City of Laingsburg, others within the City, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

October 28, 2008